

Research Update:

Santam Ltd. 'BB' Ratings Affirmed And Withdrawn; Outlook On Remaining Ratings Positive

December 12, 2024

Overview

- Santam Ltd. has maintained its strong competitive position in South Africa's property and casualty insurance sector, where it has a market share of over 20%.
- Santam's earnings profile is well diversified and supported by both underwriting and investment income.
- Santam's risk-based capital, measured using our capital model, is likely to remain at the 99.95% confidence level through to 2025, considering our earnings projections and dividend expectations over this period.
- We cap our ratings on Santam at the level of the local currency sovereign credit ratings on South Africa.
- We affirmed our 'BB' long-term global scale issuer credit and insurer financial strength ratings and our 'zaAAA' South Africa national scale ratings on Santam.
- We also affirmed all outstanding global and national scale ratings on Santam's subsidiaries and debt issues (see the full ratings list at the end of this report).
- We then withdrew our 'BB' long-term global scale issuer credit and insurer financial strength ratings on Santam at the issuer's request.
- The positive outlook on the remaining global scale ratings mirrors the positive outlook on South Africa.

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Rating Action

On Dec. 12, 2024, S&P Global Ratings affirmed its 'BB' long-term global scale issuer credit and insurer financial strength ratings on Santam Ltd. We also affirmed our 'zaAAA' long-term South Africa national scale rating on Santam.

In addition, we affirmed all outstanding global and national scale ratings on Santam's subsidiaries and debt issues (see the full ratings list at the end of this report).

We then withdrew our 'BB' long-term global scale issuer credit and insurer financial strength

ratings on Santam at the issuer's request.

The outlook on our remaining long-term global scale ratings is positive. We do not assign an outlook to our South Africa national scale ratings.

Outlook

The positive outlook on Santam reflects our positive outlook on South Africa.

Downside scenario

An outlook revision to stable over the next 12 months would be driven by a similar action on the sovereign.

Upside scenario

Over the next 12 months, the most likely trigger for an upgrade would be a similar action on the sovereign.

Rationale

Santam maintains a dominant competitive position in its domestic market. We expect Santam to maintain its strong franchise in South Africa, where it has leading positions in many business lines and a market share of close to 24% by premium income. We believe that Santam has clear risk-management practices that support its good operating performance. Santam's strong risk-control framework limits its underwriting and investment risks such that potential losses are within its risk appetite.

Claims inflation and natural catastrophes are likely to likely pressurize Santam's earnings, but we expect it to remain profitable in 2024-2026. In the first half of 2024, Santam had losses of about ZAR607 million due to adverse weather conditions across the Western Cape and KwaZulu-Natal. However, we expect Santam to report better earnings in the second half of 2024, supported by rate increases, with a net combined (loss and expense) ratio of around 96%-98% over 2024-2026 and net income of ZAR3.0 billion-ZAR3.5 billion.

Santam's capital adequacy supports the ratings. Our risk-based capital assessment includes Santam's cell business through Centriq and Santam Structured entities and, therefore, we adjust it for incremental risk from the cell business. We note that Santam is not principally responsible for capitalizing the cells and that the risk from the cells to Santam is remote. However, we apply a downward adjustment to our assessment of risk-based capital because the cell business is growing at a faster rate than Santam's core business and there is uncertainty about the capital requirements should the cells continue to grow.

Santam's liquidity and capital buffers allow it to pass our stress test under a hypothetical foreign currency sovereign default. We cap our ratings on Santam at the level of the local currency ratings on South Africa (foreign currency BB-/Positive/B; local currency BB/Positive/B), as we do for most local peers. This is because, in our view, Santam's asset and liability concentration in the domestic economy makes it susceptible to the financial and macroeconomic

stresses associated with a local currency sovereign default.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- South Africa Outlook Revised To Positive On Improved Reform And Growth Potential, Nov. 15, 2024

Ratings List

Ratings Affirmed	Final	To	From
Santam Ltd.			
Issuer Credit Rating			
Local Currency	NR	BB/Positive/--	BB/Positive/--
South Africa National Scale	zaAAA/--/--	zaAAA/--/--	zaAAA/--/--
Financial Strength Rating			
Local Currency	NR	BB/Positive/--	BB/Positive/--
Santam SI Investments Mauritius Ltd.			
Issuer Credit Rating			
Local Currency	B-/Positive/--		
Santam Structured Insurance Ltd.			
Santam Structured Reinsurance Ltd. PCC			
Issuer Credit Rating			
Local Currency	BB-/Positive/--		
Santam Structured Insurance Ltd.			
Financial Strength Rating			

Ratings Affirmed	Final	To	From
Local Currency	zaAA/--/--		
Santam Structured Insurance Ltd. PCC			
Financial Strength Rating			
Local Currency	B+/Positive/--		
Santam Structured Reinsurance Ltd. PCC			
Santam Structured Insurance Ltd.			
Financial Strength Rating			
Local Currency	BB-/Positive/--		
Santam Ltd.			
Subordinated	zaAA-		

Regulatory Disclosures

Santam Ltd.

- Primary Credit Analyst: Sylvia Mhlanga, Associate Director
- Rating Committee Chairperson: Marc Philippe Juilliard
- Date initial rating assigned: Oct. 10, 2012
- Date of previous review: Nov. 20, 2024

Santam SI Investments Mauritius Ltd.

- Primary Credit Analyst: Sylvia Mhlanga, Associate Director
- Rating Committee Chairperson: Marc Philippe Juilliard
- Date initial rating assigned: Dec. 23, 2022
- Date of previous review: Nov. 20, 2024

Santam Structured Insurance Ltd.

- Primary Credit Analyst: Sylvia Mhlanga, Associate Director
- Rating Committee Chairperson: Marc Philippe Juilliard
- Date initial rating assigned: May. 24, 2017
- Date of previous review: Nov. 20, 2024

Santam Structured Reinsurance Ltd. PCC

- Primary Credit Analyst: Sylvia Mhlanga, Associate Director

- Rating Committee Chairperson: Marc Philippe Juilliard
- Date initial rating assigned: May. 24, 2017
- Date of previous review: Nov. 20, 2024

Santam Structured Insurance Ltd. PCC

- Primary Credit Analyst: Sylvia Mhlanga, Associate Director
- Rating Committee Chairperson: Marc Philippe Juilliard
- Date initial rating assigned: Dec. 23, 2022
- Date of previous review: Nov. 20, 2024

Disclaimers

This rating has been determined by a rating committee based solely on the committee's independent evaluation of the credit risks and merits of the issuer or issue being rated in accordance with S&P Global Ratings published criteria and no part of this rating was influenced by any other business activities of S&P Global Ratings.

This credit rating is solicited. The rated entity did participate in the credit rating process. S&P Global Ratings did have access to the accounts, financial records and other relevant internal, non-public documents of the rated entity or a related third party. S&P Global Ratings has used information from sources believed to be reliable but does not guarantee the accuracy, adequacy, or completeness of any information used.

Materials Used In The Credit Rating Process: Sufficient information in general consists of both (i) financial statements that describe the Issuer's financial condition, results of operations and cash-flows, and (ii) a description of the activities and obligations of the entity including of its governance and legal structure.

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Glossary

- Business risk profile: Assesses the risk inherent in the insurer's operations and therefore the potential sustainable return to be derived from those operations.
- Capital and earnings: Measure of an insurer's ability to absorb losses.
- Combined ratio: The ratio of the sum of loss expense, loss adjustment expense, and operating expense divided by premiums earned. All elements are net of ceded reinsurance. We may use net premiums written in the denominator where net premiums earned is not available or where expenses are not deferred in the accounting system the insurer uses (e.g., U.S. statutory accounting).
- Competitive position: An assessment based on an insurer's market or niche position, scale or efficiency of operations, brand name recognition or reputation, and strength of distribution.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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